

Bringing in New Money: Foreign Direct Investment

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INTERNATIONAL
ECONOMIC DEVELOPMENT
COUNCIL

Why target FDI?

- ▶ Take advantage of expanding markets and economies overseas
- ▶ New investment and funds in the economy
- ▶ Catalyst effect/ spillover effects

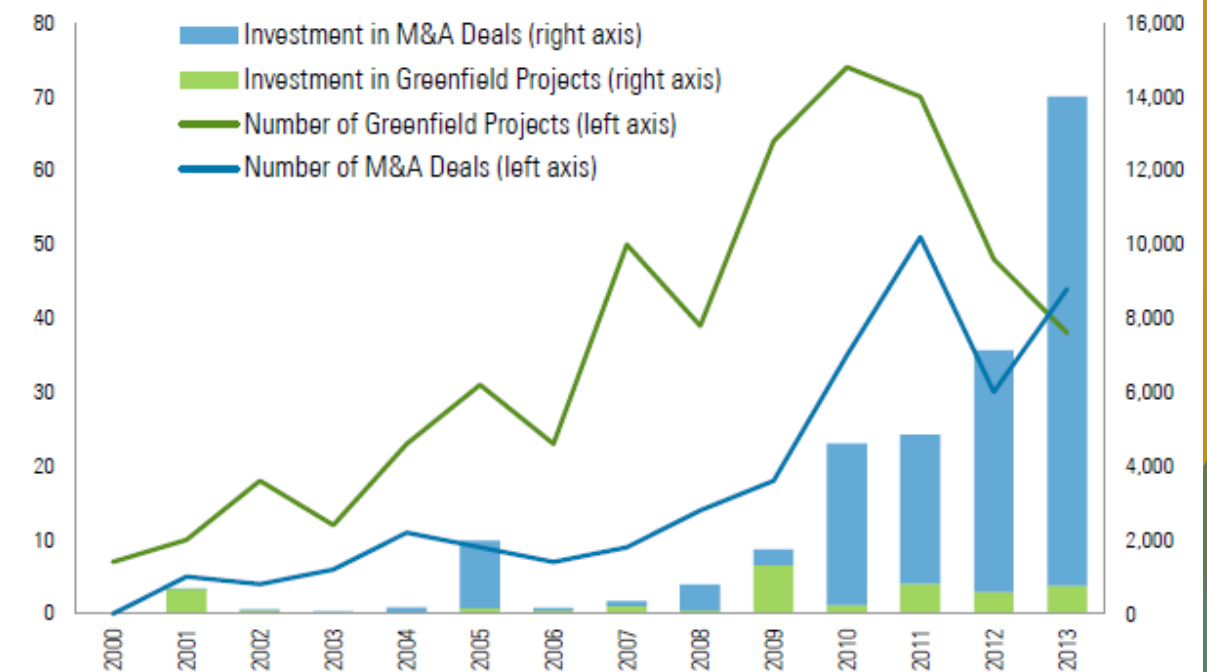


FDI in the US *at a glance*

- ▶ \$12 trillion in foreign-owned asset stock
- ▶ Employs 5.6 million
- ▶ Average salary \$78,000 annually
 - ▶ **50% more than U.S. average**
- ▶ \$45 billion in annual R&D
- ▶ \$3.5 trillion in annual sales

Figure I: Chinese FDI Transactions in the United States, 2000-2013

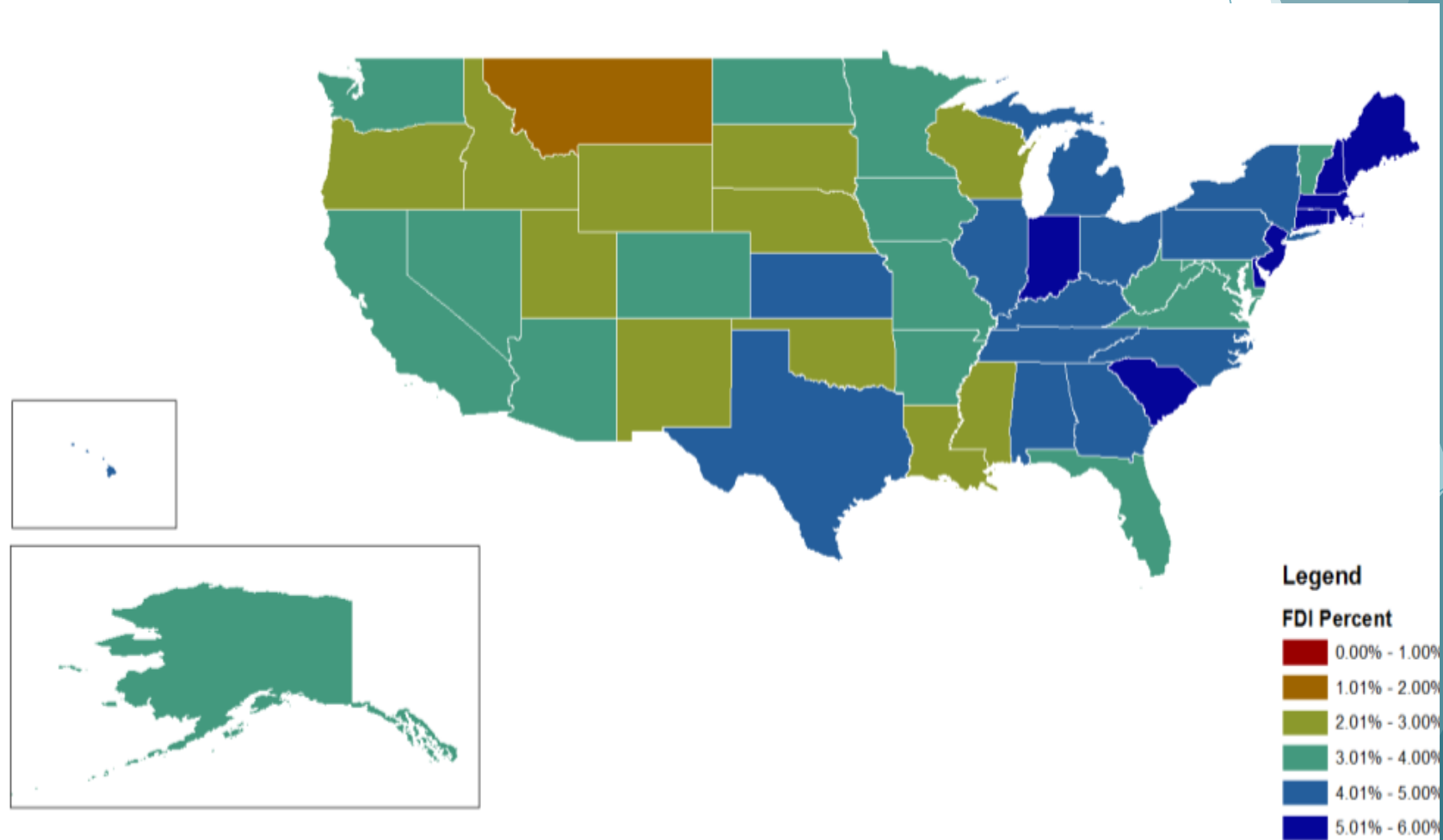
Number of transactions and value in USD million



Source: Rhodium Group. *Numbers are constantly updated and therefore subject to adjustment. A detailed explanation of sources and methodology can be found at: <http://rhg.com/interactive/china-investment-monitor>



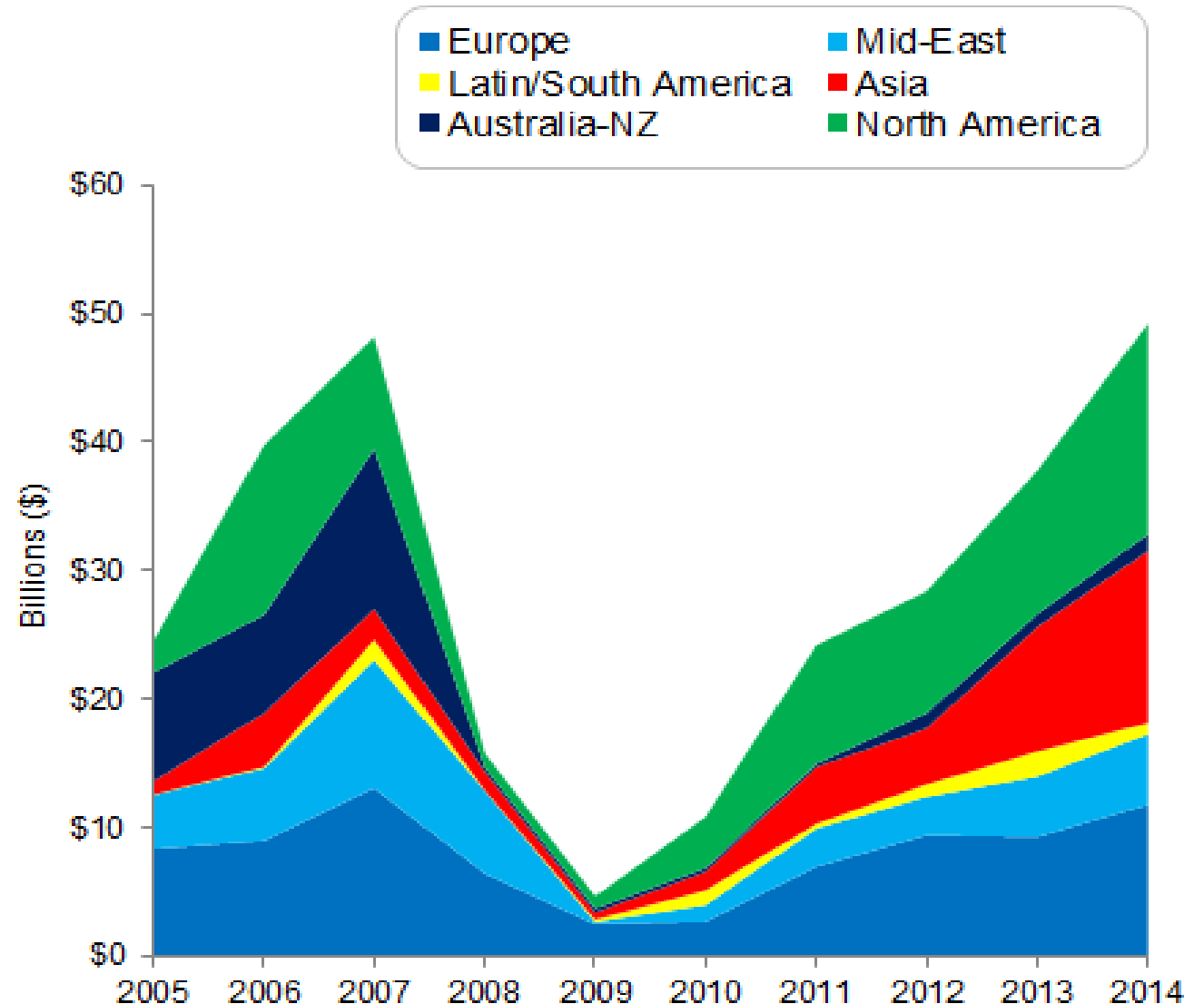
Employment in Foreign Companies by State



Where do foreign investors come from?

- ▶ Most comes from industrialized economies
- ▶ China, Brazil, India are a **growing** source of FDI
- ▶ They are not only looking at urban areas but are also establishing in rural America

Chart 2
Foreign Capital Invested in U.S. CRE

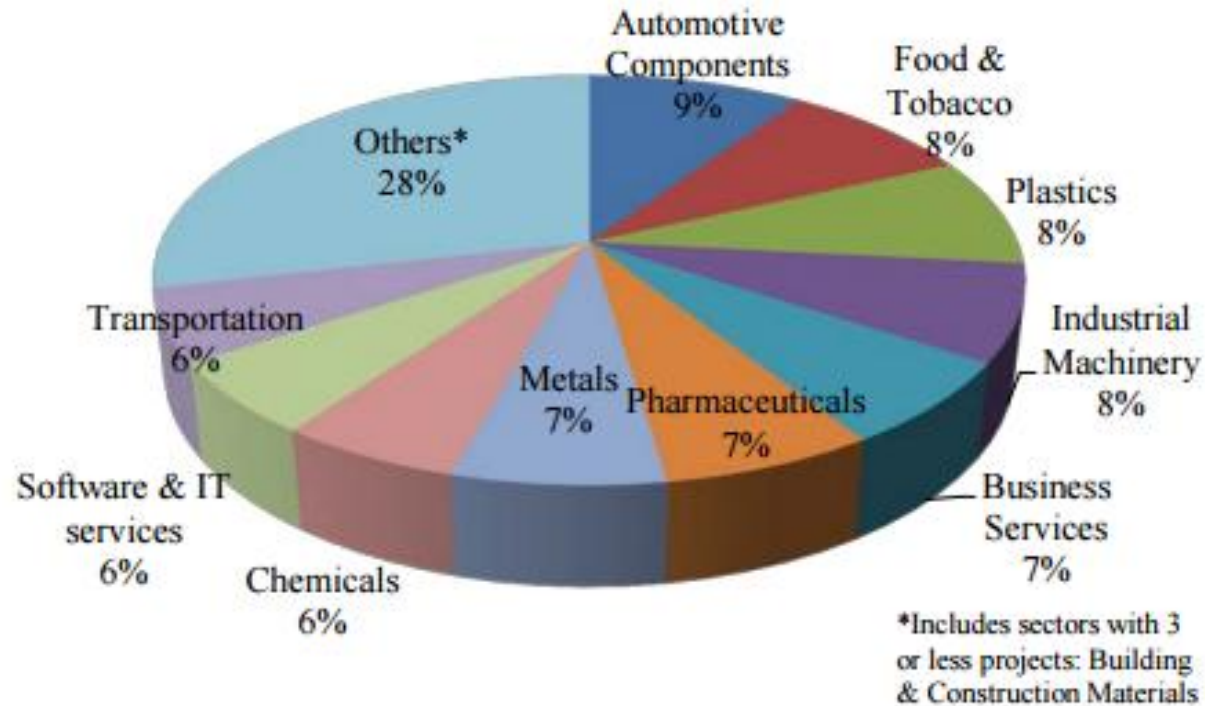


Real Capital Analytics, Risk Analysis Unit/Federal Reserve Bank of Atlanta



Foreign investment in Missouri

Publicly Announced FDI Projects into Missouri by Industry, 2003-January 2015



39,600 jobs in Missouri



Source: SelectUSA
Missouri fact sheet:

<http://selectusa.commerce.gov/state-fact-sheets/2015-02-10%20FDI%20State%20Fact%20Sheet%20-%20Missouri.pdf>

Investor Preferences

- ▶ Prior investment in area by other companies of the same nationality
- ▶ Competitor's investment in area
- ▶ Major customer or supplier presence
- ▶ Location attractiveness rankings
- ▶ Positive press and media reports
- ▶ Previous business trips or vacation
- ▶ Family ties in the area



Foreign investors pay attention to competitiveness rankings

- ▶ FDI Confidence Index - Kearney
- ▶ World Economic Forum Global Competitiveness Index
- ▶ Economist Intelligence Unit Business Environment Rankings
- ▶ World Bank Doing Business Rankings



12 Pillars of Competitiveness

3 categories of business needs:

Basic Requirements	Efficiency Enhancers	Innovation & Sophistication
1. Institutions	5. Higher Education & Training	11. Business Sophistication
2. Infrastructure	6. Goods, Market Efficiency	12. Innovation
3. Macroeconomic Environment Stability	7. Labor Market Efficiency	
4. Health & Primary Education	8. Financial Market Development	
	9. Technological Readiness	
	10. Market Size	

“Institutions” refers to government attitude, stability, efficiency - i.e. non-excessive bureaucracy, corruption, over-regulation nor lack of transparency



The State's Role

- ▶ FDI is a priority for almost every governor
- ▶ Key state policies for FDI strategies
 - ▶ Trade missions and marketing
 - ▶ Infrastructure
 - ▶ Business climate and taxes
 - ▶ Building relationships with local governments



Location Consultant's Role

- ▶ Advise companies on location decisions abroad
- ▶ Conduct search (macro and micro)
- ▶ Use experience, rankings, and data algorithms to site select
- ▶ Explain company needs to local communities



The Key to a Successful FDI Marketing Program

*Research, Research, Research, Research
Research, Research, Research, Research
Research, Research, Research, Research
Research, Research, Research, Research
Research, Research, Research, Research
Research, Research, Research, Research
Research, Research, Research, Research
Research, Research, Research, Research*



Marketing

- ▶ Do your research first
- ▶ In some cases you must go to investors. **They may not find you if you're not a well-known destination**
- ▶ Develop marketing for FDI **connected with overall strategic plan**
- ▶ Partner with the state and region in marketing
 - ▶ Trade missions, advertising, networking, introductions, testimonials, social media



Incoming Delegations

- ▶ Provide opportunities for potential investors to:
 - ▶ See jurisdiction for themselves.
 - ▶ Evaluate parcels of land or available real estate.
 - ▶ Meet with members of the public and private sectors.
 - ▶ It is especially powerful if they can meet people from their own country in your jurisdiction
- ▶ If you've met investors on an overseas trip, invite them to see your community.



Your Role: Ambassador

- ▶ Learn foreign culture and pitfalls
- ▶ Build relationships with potential investors
- ▶ Serve as intermediary between investor and local business, federal government
- ▶ Providing a 'soft landing' in your community

Beware of expensive gifts, offers of travel, etc.

Keep relationship transparent.



Trade Missions

Group overseas trips or participation in industry-specific trade shows for the purpose of marketing a city, state, or region to targeted investors.

These overseas activities provide opportunities for delegations made up of public and private sector officials to develop personal relationships with investors in countries looking to expand in the U.S.



SelectUSA Services

Services:

- ✓ Economic development counseling
- ✓ In-Market Investment Promotion
 - ✓ Facilitated Investment Missions
 - ✓ Single Location Promotion

Services for Investors:

- ✓ Information, Research, and Counseling
- ✓ Federal Agency Connection & Ombudsman Assistance



Global Industry Trade Shows

- ▶ Provide opportunities to promote to foreign investors in certain industry sectors.
- ▶ Guaranteed audience & large number of potential leads.
- ▶ Opportunity to target efforts to a particular industry.
- ▶ Disadvantage: Competition



Who should go

Possible Participants:

- ▶ State or local government officials
- ▶ Economic Development Professionals
- ▶ Chamber of commerce officials
- ▶ Industry associations that represent business clusters
- ▶ Business people that represent business clusters
- ▶ Professional Service Providers (Attorney, Accountant)



Key Success Factors

- ▶ Full schedule of presentations about an area and its key industries, networking receptions, and focused, one-on-one meetings with potential investors.

- Background research on the target country and investors.

- Inviting, organizing, and briefing the participants in the delegation.

- Coordinating schedules with industry associations or foreign investors in the target foreign country.

- Planning all logistical details; and funding some, if not all, of the travel-related activities.



Planning and Executing

The Productive Delegation vs.

The “Junket”

- ▶ Well researched, planned, and executed.
- ▶ Effective flow of information
- ▶ Develops an understanding of local culture in the target country.
- ▶ Generates leads for FDI in the delegates home jurisdiction.

- ▶ Poorly executed
- ▶ Does not generate FDI leads.
- ▶ Inadequate follow-up
- ▶ Benefits only the participants
- ▶ Perceived simply as a luxurious, expensive foreign trip.
- ▶ Often criticized as a waste of resources.



The Importance of Due Diligence

- ▶ Take some time to screen unknown foreign companies
- ▶ Time and energy can be lost assisting investors that don't hold much promise.
- ▶ Ensure that investors actually have the financial resources to invest.
- ▶ U.S. embassies overseas can help investigate companies for you.

Small companies and entrepreneurs may be difficult to screen.

A history of investment and growth may not exist.

Determine whether the investor currently exports; international trading is a good indicator of a company's track record of growth.



What to look for

Indicators of Investors with Growth Potential

- History of investing abroad
- Track record of international mergers and acquisitions
- Increasing employment



Example of regional partnering to attract FDI: Riverside, Missouri



- ▶ Martinrea International (Canada) just completed a \$115M manufacturing facility in Riverside, creating 290 jobs
- ▶ Partners that worked to make the deal:
 - Kansas City Area Development Council
 - City of Riverside
 - Platte County Economic Development Council
 - State of Missouri
 - Missouri Department of Economic Development,
 - Metropolitan Community College
 - Full Employment Council
 - Missouri Gas Energy
 - KC SmartPort to make the deal happen.



Questions?